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NSC BRIEFING

BACKGROUND

28 September 1960

SPAIN'S ECONOMIC PROBLEMS

- I. Stabilization program inaugurated July 1959 quickly achieved immediate objectives.
 - A. It halted inflation, stabilized currency, and built up foreign exchange receipts.
 1. Foreign exchange holdings up from \$76 million overdraft July 1959 to \$303 million balance July 1960.
- II. This was done at cost of economic recession, however, which has been prolonged by cabinet disagreement on steps needed to effect an upturn.
- III. Credit curbs and uncertain business outlook have slowed economic activity and swelled unemployment.
 - A. US Embassy reports substantial decline in industrial output, although government apparently reluctant to publish overall indices.
 1. Freight car loadings down 23 percent in first half 1960.
 2. Many firms have closed down.
 3. Businessmen reluctant to invest because of doubts about future.
 - B. Labor increasingly convinced sacrifices under stabilization program borne primarily by working class.
 1. Over 300,000 unemployed compared to 120,000 in 1958.
 2. Elimination of overtime for most workers has cost them up to fourth of take-home pay.
 3. Unemployment insurance program available only for small proportion of newly idle.

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- IV. Government seems unwilling to furnish incentives needed now for economic expansion.
 - A. Little prospect of substantial further trade liberalization which would permit expansion of industry.
 - B. Private investment tightly controlled.
 - 1. License from Ministry of Industry required for any industrial plant investment involving more than \$33,000.
 - 2. Foreign capital discouraged from building plants which would compete with existing industries.
- V. Minister of Industry Planell, leading opponent of stabilization plan, would risk inflation by intervening directly in specific sectors of economy to reactivate demand.
- VI. Even Finance Minister Navarro Rubio, chief backer of stabilization plan, tending to favor palliatives.
 - A. Navarro Rubio has induced government to seek to forestall labor unrest by establishing special funds for:
 - 1. Housing improvement,
 - 2. Scholarships, and
 - 3. Stock-sharing programs for labor.
- VII. Rising labor discontent over reduced pay, however, and growing pressure for general wage hikes may renew inflationary threat.
- VIII. There is danger that government may adopt politically palatable policy leading to:
 - A. Abandonment stabilization program.
 - B. Return to measures immediately inflationary in impact.

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